



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place  
Harrisburg, Pennsylvania 17101-1923  
(717) 783-5048  
800-684-6560 (in PA only)

IRWINA. POPOWSKY  
Consumer Advocate

FAX (717) 783-7152  
consumer@paoca.org

February 13, 2006

Ms. Marlene Dortch  
Office of the Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, S. W.  
Washington, DC 20554

Ex Parte Concerning: Developing a  
Unified Inter-carrier Compensation  
Regime  
CC Docket No. 01-92

Dear Ms. Dortch:

In accordance with Section 1.1206 of the Commission's rules, 47 C.F.R. §1.1206, the National Association of State Utility Consumer Advocates (NASUCA) offers notice of ex parte contacts made on December 16, 2004 concerning the above proceeding. Mr. Billy Jack Gregg and Philip McClelland recently spoke with Daniel Gonzalez concerning proposed modifications to be made to inter-carrier compensation. NASUCA continues to advocate in favor of the NASUCA Inter-carrier Compensation Proposal submitted on December 17, 2004, with further consideration of the resulting effects upon revenues and consumer charges.

Please note that this Ex Parte letter has been filed electronically. Please indicate your receipt of this filing on the additional copy provided and return it to the undersigned in the enclosed self-addressed, postage prepaid, envelope. Thank you.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Philip F. McClelland".

Philip F. McClelland  
Senior Assistant Consumer Advocate

Enclosure  
\*87527

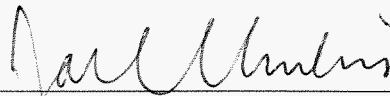
BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION

Ex Parte Concerning :  
Developing a Unified Inter-carrier : CC Docket No. 01-92  
Compensation Regime :

I hereby certify that I have this day served a true copy of the foregoing document,  
Ex Parte Letter, upon parties of record in this proceeding.

Dated this 13th day of February, 2006.

Respectfully submitted,



Philip F. McClelland  
Senior Assistant Consumer Advocate

Counsel for  
Office of Consumer Advocate  
555 Walnut Street, Forum Place, 5th Floor  
Harrisburg, PA 17101-1923  
(717) 783-5048

## ATTACHMENTS

## NASUCA Inter-carrier Compensation Proposal

The NASUCA Inter-carrier Compensation (ICC) proposal creates a glide path for minimizing the disparity among existing ICC rates and reducing their absolute level over a five year period.

**1. Recognize Cost Causation.** NASUCA believes any plan for ICC reform must recognize that a carrier that originates, transits or terminates traffic on the network of another carrier imposes costs on that carrier. As a result, the cost of inter-carrier compensation cannot be zero. Nevertheless, carriers remain free to enter into negotiated bill and keep arrangements.

**2. Address Disparate Rates.** The current widely varying rates for inter-carrier compensation create arbitrage opportunities and treat different types of carriers differently. The NASUCA proposal would minimize, but not eliminate these disparities over an interim five year period.

- Each year a new target ICC rate would be established by the FCC. Interstate ICC rates above this target would step down to the target level; rates below the target rate would be maintained.
- The final target rate for the fifth year would be \$0.0055 per minute.
- The FCC could impose a different final target rate for rural carriers, such as \$0.0095 per minute.
- States would be encouraged to match the target rate for intrastate rates. However, each state would retain authority to reach the target rate in its own way.
- As the disparity among ICC rates is reduced, and as the total amount of revenue at issue declines, carriers will have greater incentive to enter into negotiated bill and keep arrangements. Incentives to bypass the PSTN will also be reduced.

**3. No Final Solution.** With due respect for the uncertainty of the future of the telecom market and telecom technology, NASUCA believes that the FCC should take steps now to minimize ICC as a problem. However, NASUCA does not believe that a final solution is advisable or possible. The FCC should assess the situation at the end of five years to determine if additional measures are necessary in regard to ICC.

**4. Maintain Current Edge Definitions and Wholesale/Retail Relationships.** The NASUCA proposal does not require any change in the current definition of network “edges” or wholesale and retail relationships. The reduction in ICC target rates over time should also reduce arbitrage opportunities related to network and/or relationship definitions.

**5. Respect State Jurisdiction.** The current federal/state jurisdictional dichotomy as set forth in federal law would be respected. The FCC would exercise control over interstate rates and provide guidance to states in regard to annual target ICC rates. States would retain control over intrastate local and access rates.

**6. Maintain Current USF Mechanisms.** The NASUCA ICC target rates will maintain inter-carrier compensation as a revenue source for carriers, although at a reduced level. If the reduction in ICC rates creates a demonstrated need for additional interstate funding for rural carriers, it should be recovered through existing universal service mechanisms. LSS could be amended to allow recovery of a portion of the revenue shortfall related to switching.

**7. No Increase in SLC Caps or Mandatory Increase in Local Rates.** Any demonstrated need for additional intrastate funding created by reduction in ICC rates should be recovered through local rates or state universal service funds, as determined by the state.

**It is unnecessary and ill-advised to prohibit carriers from recovering their access related costs from other carriers.**

- NASUCA appreciates the importance of reducing the variance in the access rates that apply to companies accessing the network. However, the importance of this principle does not require that this rate be reduced to \$0.00. The elimination of arbitrage may as easily be achieved at a uniform rate above \$0.00.
- While the costs of accessing the network may be small and declining, there is no credible analysis demonstrating that this function will no longer cause any cost on the network. A zero charge rate would not conform to FCC efforts to bring rates to cost.
- The NASUCA proposal to bring all access rates to \$.0055 per minute in 5 years will strongly encourage companies to enter into bill and keep arrangements rather than attempt to continue monitoring and billing per minute charges at such low rates.
- There is no doubt that ICC reform will impose relatively larger changes on rural carriers. As an alternative to a single target rate, the FCC may want to establish a different target rate for rural carriers, such as \$.0095 per minute.

**FCC should reject the access revenue guarantees contained in some ICC plans.**

- Access revenues have generally declined in recent years for various reasons. In part, this reflects a migration of network traffic to services that generate less access revenues. NASUCA believes that the FCC should not take regulatory action that would short-circuit this market evolution by guaranteeing each carrier's current level of access revenues into the indefinite future.
- Access revenue replacement through FCC-required rate increases on local phone service will create artificial incentives for customers to avoid the increase by migrating to other forms of telephony, such as VOIP. Access charge reform directly affects and benefits the telecommunications industry. Accordingly, the industry should share in the costs of resolving ICC issues.
- It should not be assumed that preservation of current levels of access revenues is justified without any examination of the financial need of the carriers.
- Access revenue replacement through FCC-required rate increases on local phone service will create particular difficulties for low-income and low-usage customers.
- Any agreement among industry participants to seek FCC approval to preserve access revenues through a mandatory consumer surcharge necessarily has anti-competitive aspects that should discourage the application and approval of such relief.
- Given the general admonition in the Telecommunications Act of 1996 to "reduce regulation in order to secure lower prices," the FCC should not embrace the attempt of industry participants to raise consumer prices through a new regulatory requirement.

**It is not necessary to develop a complete, final and dramatic ICC solution at this time.**

- The problem of access rate arbitrage has existed for many years. It is important to take action to reduce this problem prospectively without necessarily eliminating intercarrier compensation entirely.
- The NASUCA approach allows the FCC time to reevaluate ICC issues at the end of 5 years in light of changes in the telecommunications market. Mid-course corrections could also be made within the 5 years of the plan.
- A 5-year plan will allow adequate time for states to craft their own methods for reaching the FCC target rates.
- An FCC order that compels measured and deliberate access rate reductions may be better than dramatic reductions in access rate disparity and concomitant revenue neutral consumer rate increases. The FCC should avoid a “cure that may be worse than the underlying disease.”

**FCC and state universal service and ratemaking mechanisms can work to resolve access revenue reduction issues.**

- In the 10<sup>th</sup> Circuit Remand Order as issued on October 27, 2003, the FCC developed universal service mechanisms designed to ensure rate comparability for customers in areas served by non-rural carriers. The FCC should allow this method to work and not short circuit the process through a required increase in rates and universal service support.
- As part of intercarrier compensation reform, the FCC should extend rate review and supplemental rate support to rural companies.
- NASUCA cautions that the FCC should carefully consider further required enlargement of the federal universal service fund given the funding issues that currently relate to the contribution factor.
- Establishment of target rates by the FCC will provide guidance to the states. However, states should be allowed to achieve the target rates in their own way.
- State universal service and ratemaking methods have been used to reduce intrastate access rates, and can continue to do so. There is no need broadly to preempt states on these issues.
- Complete preemption of state access ratemaking over purely intrastate traffic would violate § 152(b), interfere with existing state programs, and create needless appeals on what should be a cooperative governmental effort. There is no persuasive argument that Congress intended in 1996 to eliminate state jurisdiction over intrastate access.
- The same reasons and policies that drive ICC reform at the FCC are also evident to state commissions.

## REVENUE SCENARIOS 2003 - 2010

### IMPACT ON ACCESS REVENUES UNDER DIFFERENT ASSUMPTIONS

#### Scenario 1 - No Change in Rates; Decline in MOU

	2003			2010 Base Case			Change
	Billion MOU	Rate per KMOU	Revenue \$Million	Billion MOU	Rate per KMOU	Revenue \$Million	
<b>Interstate</b>							
Rural	34.3	\$21.50	\$737.5	34.3	\$21.50	\$737.5	\$0.0
Non-Rural	409.7	\$5.91	\$2,421.3	285.0	\$5.91	\$1,684.4	-\$737.0
Total Interstate	444.0	\$7.11	\$3,158.8	319.3	\$7.58	\$2,421.8	-\$737.0
<b>Intrastate</b>							
Rural	26.5	\$55.40	\$1,468.1	26.5	\$55.40	\$1,468.1	\$0.0
Non-Rural	198.1	\$25.00	\$4,952.5	138.3	\$25.00	\$3,457.5	-\$1,495.0
Total Intrastate	224.6	\$28.59	\$6,420.6	164.8	\$29.89	\$4,925.6	-\$1,495.0
Total	668.6	\$14.33	\$9,579.4	484.1	\$15.18	\$7,347.4	-\$2,232.0
Check							-\$2,232.0

**SUMMARY: \$2.2 billion revenue loss from continuing decline in MOU, even with no change in rates.**

Note: Rates expressed as dollars per thousand MOU

Source:

MOU from Estimates of Future MOU Sheet

Rates for Rural Carriers from NECA Special Study

Rates for Non-rural Carriers from ICF Estimates

#### Scenario 2 - Decline in MOU; Reduction in Rates to NASUCA Targets

	2010 Base Case			2010 @ Target Rates			Change
	Billion MOU	Rate per KMOU	Revenue \$Million	Billion MOU	Rate per KMOU	Revenue \$Million	
<b>Interstate</b>							
Rural	34.3	\$21.50	\$737.5	34.3	\$10.00	\$343.0	-\$394.5
Non-Rural	285	\$5.91	\$1,684.4	285	\$5.60	\$1,596.0	-\$88.3
Total Interstate	319.3	\$7.58	\$2,421.8	319.3	\$6.07	\$1,939.0	-\$482.8
<b>Intrastate</b>							
Rural	26.5	\$55.40	\$1,468.1	26.5	\$10.00	\$265.0	-\$1,203.1
Non-Rural	138.3	\$25.00	\$3,457.5	138.3	\$5.60	\$774.5	-\$2,683.0
Total Intrastate	164.8	\$29.89	\$4,925.6	164.8	\$6.31	\$1,039.5	-\$3,886.1
Total	484.1	\$15.18	\$7,347.4	484.1	\$6.15	\$2,978.5	-\$4,368.9
Check							-\$4,368.9

**SUMMARY: \$4.4 billion revenue loss from reduction in rates to NASUCA Targets.**

Note: Rates expressed as dollars per thousand MOU

Source:

Same as scenario 1

Target rates \$0.0055 for Non-rurals

and \$0.0095 for Rurals

## ESTIMATES OF REVENUE IMPACT OF NASUCA PLAN FOR INTERCARRIER COMPENSATION

### ACCESS REVENUES - BASE CASE

Type of Company	2003 (\$ Millions)			2010 (\$ Millions)			2010 Change from 2003
	Interstate	Intrastate	Total	Interstate	Intrastate	Total	
Non-Rural	\$2,421	\$4,953	\$7,374	\$1,684	\$3,458	\$5,142	-\$2,232
Rural	\$738	\$1,468	\$2,206	\$738	\$1,468	\$2,206	\$0
Total	\$3,159	\$6,421	\$9,579	\$2,422	\$4,926	\$7,348	-\$2,232

Source: Revenue Scenario 1

The base case shows a revenue loss of \$2.2 billion by 2010 from reduction in MOU.

The only change in the base case between 2010 and 2003 is the decline in MOU for non-rural companies, assumed to be 5% per year.

### ACCESS REVENUES - NASUCA TARGETS APPLIED TO BASE CASE

Type of Company	2010 Base Case (\$ Millions)			2010 @Target Rates (\$ Millions)			2010 Change from Base Case
	Interstate	Intrastate	Total	Interstate	Intrastate	Total	
Non-Rural	\$1,684	\$3,458	\$5,142	\$1,596	\$774	\$2,370	-\$2,771
Rural	\$738	\$1,468	\$2,206	\$343	\$265	\$608	-\$1,598
Total	\$2,422	\$4,926	\$7,348	\$1,939	\$1,039	\$2,978	-\$4,369

Source: Revenue Scenario 2

Comparing the revenues produced by the NASUCA Target Rates in 2010 to revenues produced under the Base Case, results in a revenue loss of \$4.4 billion.

The NASUCA Target Rates are \$0.0055 per MOU for Non-rural Carriers and \$0.0095 for Rural Carriers.

### SUMMARY:

Reduction in MOU	\$2.2 billion
Reduction in Rates	\$4.4 billion
Remaining ICC Revenue	<u>\$3.0 billion</u>
TOTAL 2003 ICC Revenues	\$9.6 billion

**ESTIMATES OF REVENUE IMPACT OF NASUCA PLAN  
FOR INTERCARRIER COMPENSATION  
PER LINE IMPACT**

**ACCESS REVENUES - NASUCA TARGETS**

Type of Company	2010 Base Case (\$ Millions)			2010 @ Target Rates (\$ Millions)			2010 Change from Base Case
	Interstate	Intrastate	Total	Interstate	Intrastate	Total	
Non-Rural	\$1,684	\$3,458	\$5,142	\$1,596	\$774	\$2,370	-\$2,771
Rural	\$738	\$1,468	\$2,206	\$343	\$265	\$608	-\$1,598
Total	\$2,422	\$4,926	\$7,348	\$1,939	\$1,039	\$2,978	-\$4,369

Assumes base case with changes in maximum target rates for rural companies to \$0.0095 per MOU and for non-rural companies to \$0.0055 per MOU

**PER LINE IMPACT OF CHANGE FROM BASE CASE**

Type of Company	Access Lines	Change from Base Case (\$ Millions)	Yearly Impact Per Line	Monthly Impact Per Line
Non-Rural	159,351,848	-\$2,771	-\$17.39	-\$1.45
Rural	13,022,438	-\$1,598	-\$122.68	-\$10.22
Total	172,374,286	-\$4,369	-\$25.35	-\$2.11

Source:

Access Lines from NECA USF Filing Oct. 1, 2004

Rural Lines from Rural Alliance Model

Per line impact assumes that no lost revenue is recovered from any other source.

**REVENUE SCENARIOS**  
**2003 - 2005**  
**CHANGE IN ACCESS REVENUES THROUGH 2005**

	2003			2005			
	Billion MOU	Rate per KMOU	Revenue \$Million	Billion MOU	Rate per KMOU	Revenue \$Million	Change
<b>Interstate</b>							
Rural	34.3	\$21.50	\$737.5	34.3	\$21.50	\$737.5	\$0.0
Non-Rural	409.7	\$5.91	\$2,421.3	368.3	\$5.91	\$2,176.7	-\$244.7
Total Interstate	444.0	\$7.11	\$3,158.8	402.6	\$7.24	\$2,914.1	-\$244.7
<b>Intrastate</b>							
Rural	26.5	\$55.40	\$1,468.1	26.5	\$55.40	\$1,468.1	\$0.0
Non-Rural	198.1	\$25.00	\$4,952.5	178.8	\$25.00	\$4,470.0	-\$482.5
Total Intrastate	224.6	\$28.59	\$6,420.6	205.3	\$28.92	\$5,938.1	-\$482.5
Total	668.6	\$14.33	\$9,579.4	607.9	\$14.56	\$8,852.2	-\$727.2
Check							-\$727.2

**SUMMARY: \$727 Million revenue loss from continuing decline in MOU even with no change in rates.**

Note: Rates expressed as dollars per thousand MOU

Source:

MOU from Estimates of Future MOU Sheet

and NECA Quarterly MOU Studies

Rates for Rural Carriers from NECA Special Study

Rates for Non-rural Carriers from ICF Estimates